

PERRY COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2016

PERRY COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits  
Members of Perry County Board of Education  
Hazard, Kentucky

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Perry County School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits in the Kentucky Public School District's Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Perry County School District, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information and pension supplemental reporting on pages 4-9 and 47-49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Perry County School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2016, on our consideration of the Perry County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Perry County School District's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

November 9, 2016

PERRY COUNTY SCHOOL DISTRICT  
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2016

As management of the Perry County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance, including temporary investment accounts and activity funds, for the District was \$26,606,120. This includes restricted cash, \$22,947,276 and activity fund cash, \$398,838. The beginning cash balance was \$8,814,408.
- Interest revenue totaled \$83,592 for the year ended and for the prior year the total interest revenue was \$107,028.
- The District's total long-term debt principal reductions were \$4,230,372 including refunding the July 2006 issue. The new refunding series 2016 total principal balance is \$2,155,000.
- A new bond dated February 2016 for \$22,030,000 was issued for construction of new elementary school facilities.
- Total general fund revenue was \$32,086,680 consisting primarily of state program (SEEK), property, utilities, and motor vehicle taxes. Excluding general fund transfers, there were \$31,638,542 in general fund expenditures. The general fund revenue and expenditures include \$6,440,458 in state on-behalf payments.

**OVERVIEW OF FINANCIAL STATEMENTS**

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

PERRY COUNTY SCHOOL DISTRICT  
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

**Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

**Fund financial statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include activity funds. Proprietary funds include the school food service, daycare and preschool funds. All other activities are reported under governmental funds.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.



PERRY COUNTY SCHOOL DISTRICT  
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2016, assets exceeded liabilities by \$21,262,315.

The greatest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and ongoing construction projects, where applicable), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**Net position for the year ended June 30, 2016**

Below is a comparison of net position:

	June 30,	
	<u>2016</u>	<u>2015</u>
Current assets	29,035,732	11,565,764
Noncurrent assets	59,226,495	54,284,800
Deferred outflows of resources	<u>2,143,917</u>	<u>1,079,458</u>
<u>Total assets and outflows of resources</u>	<u>90,406,144</u>	<u>66,930,022</u>
Current liabilities	6,006,112	4,553,000
Noncurrent liabilities	61,906,434	39,982,629
Deferred inflows of resources	<u>1,231,283</u>	<u>902,000</u>
<u>Total liabilities and inflows of resources</u>	<u>69,143,829</u>	<u>45,437,629</u>
- Net position -		
Investment in capital assets (net of debt)	9,559,748	20,161,147
Restricted	21,775,548	6,687,306
Unrestricted (deficit)	<u>(10,072,981)</u>	<u>(5,356,060)</u>
<u>Total net position</u>	<u>21,262,315</u>	<u>21,492,393</u>
<u>Total liabilities, deferred inflows of resources and net position</u>	<u>90,406,144</u>	<u>66,930,022</u>

PERRY COUNTY SCHOOL DISTRICT  
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

The following are significant current year transactions that impact the Statement of Net Position:

- Increase in current restricted Building and Construction Fund cash and cash equivalents, total restricted cash at June 30, 2016 totals \$22,131,633.
- Changes in deferred outflows, deferred inflows and deficit balances are primarily the result of GASB 68 CERS adjusting entries related to the District's retirement plan for classified employees.
- Non-current liabilities reflect the affect of the new revenue bond issue totaling \$22,030,000 for elementary school construction.

The following table presents a comparison of statement of activities for the fiscal years ended June 30, 2016 and 2015:

Revenues:	For Year Ended June 30,	
	<u>2016</u>	<u>2015</u>
Local revenue sources	10,348,671	10,586,929
State revenue sources	34,078,747	32,324,815
Federal revenue	<u>8,214,870</u>	<u>7,831,910</u>
<u>Total revenues</u>	<u>52,642,288</u>	<u>50,743,654</u>
Expenses:		
Instruction	29,680,467	26,714,010
Student support services	1,674,395	1,898,240
Instructional support	2,211,179	2,360,352
District administration	950,259	983,334
School administration	2,495,984	2,231,847
Business support	1,188,492	1,022,487
Plant operation	5,060,821	4,371,553
Student transportation	3,160,769	3,075,820
Food service operations	5,033,114	4,031,059
Community services	626,766	552,623
Day care operations	89,820	81,690
Interest on long-term debt	<u>700,300</u>	<u>628,028</u>
<u>Total expenses</u>	<u>52,872,366</u>	<u>47,951,043</u>
<u>Change in net position</u>	<u>(230,078)</u>	<u>2,792,611</u>

PERRY COUNTY SCHOOL DISTRICT  
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

- Current year expense reflects governmental fund depreciation in the amount of \$2,029,342 and state on-behalf Prior year expense reflects governmental fund depreciation in the amount of \$2,073,777.
- Local property tax comparisons at 2016 and 2015 are as follows: General property tax – \$3,204,568 and \$3,658,774; unmined minerals tax - \$1,168,574 and \$1,002,944; motor vehicle tax - \$876,153 and \$871,767 and utility tax revenue, \$1,581,789 and \$1,626,505.
- State revenue sources include adjustments for differences in actuarially determined pension expense and amounts actually contributed.
- SEEK program fiscal year end General Fund revenue was \$17,457,150 for year ending June 30, 2016 and for 2015 was \$17,195,166.
- Federal revenue and related expenditures per schedule of federal awards for 2016 is \$8,055,004 and for 2015 was \$8,062,999.

**BUDGET COMPARISONS**

The following table presents a comparison of budget to actual for the general fund for the fiscal year ended June 30, 2016:

	Budget <u>2016</u>	Actual <u>2016</u>	Variance <u>I (D)</u>
Revenues:			
Local revenue sources	8,158,000	7,974,905	(183,095)
State revenue sources	23,827,150	24,024,029	196,879
Federal revenue sources	<u>100,000</u>	<u>87,746</u>	<u>(12,254)</u>
<u>Total revenues</u>	<u>32,085,150</u>	<u>32,086,680</u>	<u>1,530</u>
Expenses:			
Instruction	19,974,948	18,751,901	1,223,047
Student support services	1,624,897	1,433,163	191,734
Instructional support	646,211	606,157	40,054
District administration	926,160	822,241	103,919
School administration	2,175,787	2,193,966	(18,179)
Business support	967,876	1,031,285	(63,409)
Plant operation and management	3,861,914	4,251,537	(389,623)
Student transportation	2,421,420	2,392,603	28,817
Food service operations	600	-	600
Community services	5,879	9,521	(3,642)
Debt service	-	146,168	(146,168)
Contingencies	<u>2,484,813</u>	<u>-</u>	<u>2,484,813</u>
<u>Total expenses</u>	<u>35,090,505</u>	<u>31,638,542</u>	<u>3,451,963</u>
<u>Excess (deficiency) of revenue over expenditures</u>	<u>(3,005,355)</u>	<u>448,138</u>	<u>3,453,493</u>

PERRY COUNTY SCHOOL DISTRICT  
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

- Actual revenues and expenditures reflect General Fund state on behalf payments in the amount of \$6,440,458.
- Variances in Instruction, \$1,223,047 is primarily under Salaries – Personnel Services, \$1,156,016.
- Unbudgeted debt service includes payments made related to KISTA bus purchases.

**BUDGETARY IMPLICATIONS**

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$2,484,813 in contingency (7.06%) for the fiscal year ended June 30, 2016.

Results of the current fiscal year and recent historical trends for the District were taken into account when preparing the subsequent year budget. No significant changes in revenue or expense items are foreseeable. The District's tax rates and tax base remain effectively the same. The District has assessed and considered underlying economical and funding factors at the federal, state, and local level and other non-financial areas including demographics, local economy and risk of loss of student population that may have a significant impact on the financial statements when preparing subsequent years budgets.

Questions regarding this report should be directed to the Superintendent or the Finance Officer at (606) 439-5813.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSITIONAt June 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets:</b>			
- Current assets -			
Cash and cash equivalents - unrestricted	3,830,825	-	3,830,825
Cash and cash equivalents - restricted	22,131,633	815,643	22,947,276
Accounts receivable:			
Taxes - current	294,490	-	294,490
Taxes - delinquent	91,105	-	91,105
Other	302,549	-	302,549
Intergovernmental - state	145,436	14,293	159,729
Intergovernmental -indirect federal	873,495	524,870	1,398,365
Inventories	-	11,393	11,393
<u>Total current assets</u>	<u>27,669,533</u>	<u>1,366,199</u>	<u>29,035,732</u>
- Noncurrent assets -			
Capital assets - non-depreciable	12,158,124	-	12,158,124
Capital assets - depreciable (net)	46,759,405	160,364	46,919,769
Unamortized discounts on bonds payable	148,602	-	148,602
<u>Total noncurrent assets</u>	<u>59,066,131</u>	<u>160,364</u>	<u>59,226,495</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows - pension resources	1,812,896	331,021	2,143,917
<u>Total assets and deferred outflows of resources</u>	<u>88,548,560</u>	<u>1,857,584</u>	<u>90,406,144</u>

See notes to financial statements.

**PERRY COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION (Continued)**

At June 30, 2016

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>Liabilities:</b>			
- Current liabilities -			
Cash deficit	570,601	218	570,819
Accounts payable	1,047,142	21,369	1,068,511
Unearned revenues - governmental sources	446,764	-	446,764
Current portion of bond/lease obligations	2,848,859	-	2,848,859
Current portion of KSBIT obligation	28,036	-	28,036
Interest payable	1,043,123	-	1,043,123
<u>Total current liabilities</u>	<u>5,984,525</u>	<u>21,587</u>	<u>6,006,112</u>
- Noncurrent liabilities -			
Long term portion of accrued sick leave payable	424,029	-	424,029
Long term portion of KSBIT obligation	112,147	-	112,147
Unamortized premium on bonds payable	14,452	-	14,452
Noncurrent portion of bond/lease obligations	50,474,457	-	50,474,457
Net pension liability	9,201,269	1,680,080	10,881,349
<u>Total noncurrent liabilities</u>	<u>60,226,354</u>	<u>1,680,080</u>	<u>61,906,434</u>
 <u>Total liabilities</u>	 <u>66,210,879</u>	 <u>1,701,667</u>	 <u>67,912,546</u>
 Deferred inflows of resources - pension related	 1,041,172	 190,111	 1,231,283
<u>Total deferred inflows of resources</u>	<u>1,041,172</u>	<u>190,111</u>	<u>1,231,283</u>
 <b>Net position:</b>			
Net investment in capital assets	9,399,384	160,364	9,559,748
Restricted for:			
Sick Leave	162,617	-	162,617
Other	21,599,553	13,378	21,612,931
Unrestricted (deficit)	(9,865,045)	(207,936)	(10,072,981)
<u>Total net position</u>	<u>21,296,509</u>	<u>(34,194)</u>	<u>21,262,315</u>
 Total liabilities, deferred inflows of resources and net position	 <u>88,548,560</u>	 <u>1,857,584</u>	 <u>90,406,144</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIESFor the Year Ended June 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants &amp; Contributions</u>	<u>Capital Grants &amp; Contributions</u>
<b>FUNCTIONS/PROGRAMS:</b>				
- Governmental Activities -				
Instruction	29,680,467	-	(14,128,513)	-
Support services:				
Student	1,674,395	-	(855,596)	-
Instructional staff	2,211,179	-	(285,218)	-
District administration	950,259	-	(134,207)	-
School administration	2,495,984	-	(793,133)	-
Business support	1,188,492	-	(125,007)	-
Plant operation & management	5,060,821	-	(90,814)	-
Student transportation	3,160,769	-	(163,175)	-
Food service operations	53,020	-	(100,386)	-
Community services operations	626,766	-	(542,404)	-
Interest on long-term debt	<u>700,300</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>Total governmental activities</u></b>	<u>47,802,452</u>	<u>-</u>	<u>(17,218,453)</u>	<u>-</u>
- Business-type Activities -				
Food service	4,980,094	(401,592)	(3,962,498)	-
Day care	<u>89,820</u>	<u>(99,008)</u>	<u>-</u>	<u>-</u>
<b><u>Total business-type activities</u></b>	<u>5,069,914</u>	<u>(500,600)</u>	<u>(3,962,498)</u>	<u>-</u>
<b><u>Total primary government</u></b>	<u>52,872,366</u>	<u>(500,600)</u>	<u>(21,180,951)</u>	<u>-</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIES (continued)For the Year Ended June 30, 2016

	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
	(15,551,954)	-	(15,551,954)
	(818,799)	-	(818,799)
	(1,925,961)	-	(1,925,961)
	(816,052)	-	(816,052)
	(1,702,851)	-	(1,702,851)
	(1,063,485)	-	(1,063,485)
	(4,970,007)	-	(4,970,007)
	(2,997,594)	-	(2,997,594)
	47,366	-	47,366
	(84,362)	-	(84,362)
	<u>(700,300)</u>	<u>-</u>	<u>(700,300)</u>
	<u>(30,583,999)</u>	<u>-</u>	<u>(30,583,999)</u>
	-	(616,004)	(616,004)
	<u>-</u>	<u>9,188</u>	<u>9,188</u>
	<u>-</u>	<u>(606,816)</u>	<u>(606,816)</u>
	<u>(30,583,999)</u>	<u>(606,816)</u>	<u>(31,190,815)</u>
<b>General revenues:</b>			
Taxes	9,395,739	-	9,395,739
Investment earnings	69,309	14,283	83,592
State and formula grants	21,112,666	-	21,112,666
Miscellaneous	368,740	-	368,740
Transfers in (out)	<u>29,434</u>	<u>(29,434)</u>	<u>-</u>
<b><u>Total general revenues</u></b>	<u>30,975,888</u>	<u>(15,151)</u>	<u>30,960,737</u>
Change in net position	391,889	(621,967)	(230,078)
Net position - beginning of year (restated)	<u>20,904,620</u>	<u>587,773</u>	<u>21,492,393</u>
Net position (deficit) - end of year	<u>21,296,509</u>	<u>(34,194)</u>	<u>21,262,315</u>

See notes to financial statements.



PERRY COUNTY SCHOOL DISTRICTBALANCE SHEET – GOVERNMENTAL FUNDSAt June 30, 2016

	<u>General Fund</u>	<u>Special Revenue</u>	<u>FSPK Fund</u>	<u>Construction Fund</u>	<u>Other Gov't Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>						
Cash and investments	3,830,825	-	-	-	-	3,830,825
Cash and cash equivalents - restricted	-	-	5,909,436	16,222,197	-	22,131,633
Accounts receivable:						
Taxes - current	294,490	-	-	-	-	294,490
Taxes - delinquent	91,105	-	-	-	-	91,105
Other	131,349	33,700	-	137,500	-	302,549
Intergovernmental - state	1,549	143,887	-	-	-	145,436
Intergovernmental - federal	-	873,495	-	-	-	873,495
<u>Total assets</u>	<u>4,349,318</u>	<u>1,051,082</u>	<u>5,909,436</u>	<u>16,359,697</u>	<u>-</u>	<u>27,669,533</u>
<b>Liabilities:</b>						
Cash deficit	-	570,601	-	-	-	570,601
Accounts payable	306,046	33,717	-	707,379	-	1,047,142
Unearned revenues - governmental sources	-	446,764	-	-	-	446,764
<u>Total liabilities</u>	<u>306,046</u>	<u>1,051,082</u>	<u>-</u>	<u>707,379</u>	<u>-</u>	<u>2,064,507</u>
<b>Fund balances</b>						
Restricted for SFCC Escrow - prior	-	-	-	-	-	-
Restricted for debt service	-	-	555,702	-	-	555,702
Restricted for future construction	-	-	5,353,734	15,652,318	-	21,006,052
Restricted for sick leave	162,617	-	-	-	-	162,617
Assigned - purchase obligations	37,799	-	-	-	-	37,799
Unassigned fund balance	3,842,856	-	-	-	-	3,842,856
<u>Total fund balances</u>	<u>4,043,272</u>	<u>-</u>	<u>5,909,436</u>	<u>15,652,318</u>	<u>-</u>	<u>25,605,026</u>
<u>Total liabilities and fund balances</u>	<u>4,349,318</u>	<u>1,051,082</u>	<u>5,909,436</u>	<u>16,359,697</u>	<u>-</u>	<u>27,669,533</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITIONAt June 30, 2016

Total fund balance per fund financial statements	25,605,026
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but are reported in the statement of net position.	58,917,529
Deferred outflows - pension resources are reported in government wide financial statements but not in fund financial statements.	1,812,896
Unamortized discounts on bonds payable are reported in government wide financial statement but not in fund financial statements.	148,602
Long-term sick leave payable is not recognized in the fund financial statements.	(424,029)
Certain liabilities (such as bonds payable and KSBIT payable are not reported in this fund financial statement because they are not due and payable, and related interest and unamortized premiums on bonds payable, but are presented in the government-wide financial statements.	(54,521,074)
Net pension obligations are not due and payable in the current period, and therefore, are not reported in the fund financial statements.	(9,201,269)
Deferred inflows of resources related to pensions are not reported in the fund financial statements.	<u>(1,041,172)</u>
Net position for governmental activities	<u><u>21,296,509</u></u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	<u>General</u>	<u>Special</u>	<u>FSPK</u>	<u>Construction</u>	<u>Other</u>	<u>Total</u>
	<u>Fund</u>	<u>Revenue</u>	<u>Fund</u>	<u>Fund</u>	<u>Gov't Funds</u>	<u>Gov't Funds</u>
<b>Revenues:</b>						
From local sources:						
Taxes	7,863,654	-	1,532,085	-	-	9,395,739
Earnings on investments	69,309	-	-	-	-	69,309
Other local revenue	41,942	314,869	-	-	-	356,811
Intergovernmental - state	24,024,029	2,907,285	1,146,467	137,500	1,388,279	29,603,560
Intergovernmental - direct federal	-	59,444	-	-	-	59,444
Intergovernmental - indirect federal	87,746	4,105,182	-	-	-	4,192,928
<b><u>Total revenues</u></b>	<u>32,086,680</u>	<u>7,386,780</u>	<u>2,678,552</u>	<u>137,500</u>	<u>1,388,279</u>	<u>43,677,791</u>
<b>Expenditures:</b>						
Instructional	18,751,901	5,352,866	-	-	-	24,104,767
Student support services	1,433,163	19,820	-	-	-	1,452,983
Staff support services	606,157	1,312,629	-	-	-	1,918,786
District administration	822,241	2,361	-	-	-	824,602
School administration	2,193,966	-	-	-	-	2,193,966
Business support	1,031,285	48	-	-	-	1,031,333
Plant operations and maintenance	4,251,537	64,693	-	-	-	4,316,230
Student transportation	2,392,603	143,006	-	-	-	2,535,609
Food service operations	-	53,020	-	-	-	53,020
Community service activities	9,521	534,365	-	-	-	543,886
Facilities acquisition and construction	-	-	-	6,183,899	-	6,183,899
Debt service costs						
Principal	126,366	-	-	-	2,004,035	2,130,401
Interest	19,802	-	-	-	583,612	603,414
<b><u>Total expenditures</u></b>	<u>31,638,542</u>	<u>7,482,808</u>	<u>-</u>	<u>6,183,899</u>	<u>2,587,647</u>	<u>47,892,896</u>
Excess (deficit) of revenues over expenditures	448,138	(96,028)	2,678,552	(6,046,399)	(1,199,368)	(4,215,105)
<b>Other financing sources (uses):</b>						
Bond proceeds	-	-	-	21,679,764	2,099,971	23,779,735
Bond issue retirement	-	-	-	-	(2,099,971)	(2,099,971)
Operating transfers in	388,092	91,078	-	-	1,558,026	2,037,196
Operating transfers out	(91,078)	-	(1,558,026)	-	(358,658)	(2,007,762)
Gains (losses) on assets	6,979	4,950	-	-	-	11,929
<b><u>Total other financing sources (uses)</u></b>	<u>303,993</u>	<u>96,028</u>	<u>(1,558,026)</u>	<u>21,679,764</u>	<u>1,199,368</u>	<u>21,721,127</u>
Changes in fund balance	752,131	-	1,120,526	15,633,365	-	17,506,022
<b>Fund balance - July 1, 2015</b>	<u>3,291,141</u>	<u>-</u>	<u>4,788,910</u>	<u>18,953</u>	<u>-</u>	<u>8,099,004</u>
<b>Fund balance - June 30, 2016</b>	<u>4,043,272</u>	<u>-</u>	<u>5,909,436</u>	<u>15,652,318</u>	<u>-</u>	<u>25,605,026</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2016

Net change in total fund balances per fund financial statements	17,506,022
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Amounts reported for governmental activities in the statement of activities differences:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.

Capital outlays are reported in fund financial statements	6,183,899
Depreciation recorded in government wide financial statements	(2,029,342)

Interest expense on long-term debt is recognized in the fund financial statements when paid and accrued in the government wide financial statements of activities.	(85,797)
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Accrued sick leave is recognized when incurred in the fund financial statements.	95,833
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Amortization expense on refunded debt is not recognized in the fund financial statements.	(11,089)
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Bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position.	4,230,372
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Payments on other long term financing, KSBIT, are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position.	28,036
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Bond proceeds are recognized as other financing resources in the fund financial statements but are reflected as liabilities in the statement of net position.	(23,779,735)
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Governmental funds report district pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	<u>(1,746,310)</u>
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Change in net position of governmental activities	<u><u>391,889</u></u>
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See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSITION – PROPRIETARY FUNDSAt June 30, 2016

	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
<b>Assets:</b>			
- Current Assets -			
Cash and cash equivalents - restricted	815,643	-	815,643
Accounts receivable	524,870	14,293	539,163
Inventories	11,393	-	11,393
<u>Total current assets</u>	<u>1,351,906</u>	<u>14,293</u>	<u>1,366,199</u>
- Noncurrent Assets -			
Depreciable capital assets - net	160,364	-	160,364
<u>Total assets</u>	<u>1,512,270</u>	<u>14,293</u>	<u>1,526,563</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows - pension resources	331,021	-	331,021
<u>Total assets and deferred outflow of resources</u>	<u>1,843,291</u>	<u>14,293</u>	<u>1,857,584</u>
<b>Liabilities:</b>			
- Current Liabilities -			
Cash - deficit	-	218	218
Accounts payable	20,672	697	21,369
<u>Total current liabilities</u>	<u>20,672</u>	<u>915</u>	<u>21,587</u>
- Noncurrent liabilities -			
Net pension liability	1,680,080	-	1,680,080
<u>Total liabilities</u>	<u>1,700,752</u>	<u>915</u>	<u>1,701,667</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows - pension resources	190,111	-	190,111
<u>Total liabilities and deferred inflow of resources</u>	<u>1,890,863</u>	<u>915</u>	<u>1,891,778</u>
<b>Net position:</b>			
Net investment in capital assets	160,364	-	160,364
Unrestricted (Deficit)	(207,936)	13,378	(194,558)
<u>Total net position</u>	<u>(47,572)</u>	<u>13,378</u>	<u>(34,194)</u>
<u>Total liabilities, deferred inflow of resources and net position</u>	<u>1,843,291</u>	<u>14,293</u>	<u>1,857,584</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –  
PROPRIETARY FUNDSFor the Year Ended June 30, 2016

	Food Service <u>Fund</u>	Day Care <u>Fund</u>	<u>Total</u>
<b>Operating revenues:</b>			
Revenues from local sources	401,592	-	401,592
Federal grants	3,663,390	-	3,663,390
State grants/on-behalf payments	274,060	-	274,060
Donated commodities	25,048	-	25,048
Tuition from individuals	-	99,008	99,008
	<u>          </u>	<u>          </u>	<u>          </u>
<u>Total operating revenues</u>	<u>4,364,090</u>	<u>99,008</u>	<u>4,463,098</u>
<b>Operating expense:</b>			
Salaries and wages	1,923,190	79,006	2,002,196
Contract services	357,652	660	358,312
Materials and supplies	2,512,172	10,029	2,522,201
Depreciation	29,745	-	29,745
Other operating expenses	157,335	125	157,460
	<u>          </u>	<u>          </u>	<u>          </u>
<u>Total operating expenses</u>	<u>4,980,094</u>	<u>89,820</u>	<u>5,069,914</u>
<u>Operating income (loss)</u>	<u>(616,004)</u>	<u>9,188</u>	<u>(606,816)</u>
<b>Nonoperating Revenue/(Expense):</b>			
Interest income	14,283	-	14,283
Transfers in (out)	(29,434)	-	(29,434)
	<u>          </u>	<u>          </u>	<u>          </u>
<u>Total nonoperating revenue/(expense)</u>	<u>(15,151)</u>	<u>-</u>	<u>(15,151)</u>
<u>Change in net position</u>	<u>(631,155)</u>	<u>9,188</u>	<u>(621,967)</u>
Net Position, July 1, 2015, restated	<u>583,583</u>	<u>4,190</u>	<u>587,773</u>
Net Position (Deficit), June 30, 2016	<u>(47,572)</u>	<u>13,378</u>	<u>(34,194)</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF CASH FLOWS – PROPRIETARY FUNDSFor the Year Ended June 30, 2016

	Food Service <u>Fund</u>	Day Care <u>Fund</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>			
Cash received from:			
Lunchroom sales	401,592	-	401,592
Federal and State grants	3,247,250	-	3,247,250
Tuition from individuals	-	84,715	84,715
Cash paid to/for:			
Employees	(1,649,130)	(79,006)	(1,728,136)
Supplies/Contractual	(2,870,073)	(10,820)	(2,880,893)
Other activities	<u>(157,335)</u>	<u>(785)</u>	<u>(158,120)</u>
<u>Net cash provided (used) by operating activities</u>	<u>(1,027,696)</u>	<u>(5,896)</u>	<u>(1,033,592)</u>
<b>Cash flows from capital and related financing activities:</b>			
Change in capital assets (net)	<u>(49,500)</u>	<u>-</u>	<u>(49,500)</u>
<b>Cash flows from investing activities:</b>			
Interest income	<u>14,283</u>	<u>-</u>	<u>14,283</u>
<b>Cash flows from financing activities:</b>			
Changes in net pension liabilities and related deferrals	318,863	-	318,863
Transfers from (to) other funds	<u>(29,434)</u>	<u>-</u>	<u>(29,434)</u>
	<u>289,429</u>	<u>-</u>	<u>289,429</u>
Net increase (decrease) in cash	(773,484)	(5,896)	(779,380)
Cash, beginning of year	<u>1,589,127</u>	<u>5,678</u>	<u>1,594,805</u>
Cash, end of year	<u>815,643</u>	<u>(218)</u>	<u>815,425</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operations:</b>			
Operating income (loss)	(616,004)	9,188	(606,816)
Adjustments to reconcile operating income to cash provided (used) by operating activities:			
Depreciation	29,745	-	29,745
Changes in current assets/liabilities			
Accounts receivable	(416,140)	(14,293)	(430,433)
Inventory	36,234	-	36,234
Accounts payable	<u>(61,531)</u>	<u>(791)</u>	<u>(62,322)</u>
Net cash provided (used) by operating activities	<u><u>(1,027,696)</u></u>	<u><u>(5,896)</u></u>	<u><u>(1,033,592)</u></u>

The schedule reflects reconciliation for \$274,060 of non-cash on-behalf payments from the State related to personnel costs and \$25,048 related to donated commodities.

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF FIDUCIARY NET POSITION – ACTIVITY FUNDSAt June 30, 2016**Assets:**

Cash and cash equivalents	<u>398,838</u>
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<u>Total assets</u>	<u><u>398,838</u></u>
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**Liabilities:**

Accounts payable	-
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Due to individual student activity account funds	<u>398,838</u>
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<u>Total liabilities</u>	<u><u>398,838</u></u>
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**Net Postion:**

Restricted - student activities	<u>-</u>
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<u>Total liabilities and net position</u>	<u><u>398,838</u></u>
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See notes to financial statements.



PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTSJune 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Perry County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Perry County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence, operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Perry County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment or the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Perry County School District Finance Corporation – On July 12, 1988, the Perry County, Kentucky, Board of Education resolved to authorize the establishment of the Perry County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Perry County Board of Education also comprise the Corporations’ Board of Directors.

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Grant Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) The District Wide Activity Multi Year fund, a special revenue fund, accounts for student activities on a district wide basis primarily for instruction and instructional staff support service purposes.
- (D) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
  - 2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
  - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

- (E) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recognized for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

The Childcare Fund accounts for revenues and expenditures related to daycare services and preschool activities.

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Accounting Procedures for Kentucky School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements,

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Accounting (continued)

in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Inflows of Resources and Deferred Outflows of Resources – A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources. On the accrual basis of accounting, unamortized deferred charges on debt refunding is reported as a deferred outflow of resources.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and change in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred inflows.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2016, to finance the General Fund operations were \$.548 per \$100 valuation for real property, \$.548 per \$100 valuation for business personal property and \$.497 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars for tangible property with the exception of all computers and laptop equipment; printers and digital cameras greater than \$300; any additional items designated and, real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2016.

The District has restricted \$162,617 of its fund balance for future sick leave payments.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with original maturity of 90 days or less, to be cash equivalents.

Cash and other assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the assets. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for acquisition and construction of capital improvements.

Inventories

Supplies and materials are charged to expenditures when purchased.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

GASB 63 has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets, " consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the District or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers.



PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Interfund Activity (continued)

Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Recently Issued Accounting Pronouncements

GASB Statement 65, implemented during the 2013-14 reporting year, establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred outflows of resources or deferred inflows of resources, provides changes in the determination of the major fund calculations and limiting the use of “deferred” in financial statement presentations.

GASB Statement No. 66, *Technical Corrections—2012; an Amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District implemented the new requirements for fiscal year 2013-2014 financial statements.

GASB Statements Nos. 67, 68 and 71, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27* improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District’s management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the bank balance of the District’s cash and cash equivalents was \$28,260,948. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

The funds of the District are deposited and invested under the terms of a contract, contents of which are set out in the bond of depositors for public school funds. The depository bank places approved pledged securities for safekeeping and trust with the District’s agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE C – CASH AND CASH EQUIVALENTS (continued)

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). All of the District's deposits were collateralized with securities held in the financial institution's names. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the organization's cash is held at a local financial institution. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

Cash and cash equivalents at June 30, 2016 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Peoples Bank & Trust		
General operations	6,165,543	4,527,443
A.B. Combs Elementary	32,871	32,871
Buckhorn School	40,474	39,191
Chavies Elementary	30,680	29,573
East Perry Elementary	91,075	90,326
Leatherwood Elementary	8,703	8,458
Perry County Central High School	99,676	94,422
Robinson Elementary	34,493	34,462
R.W. Combs Elementary	45,605	44,201
Viper Elementary	14,759	13,781
Willard Elementary	9,930	11,553
Bond and Interest Accounts	<u>7,300</u>	<u>-</u>
<u>Total</u>	<u>6,581,109</u>	<u>4,926,281</u>
US Bank		
General operations	<u>21,679,764</u>	<u>21,679,764</u>
Traditional Bank		
General operations	<u>75</u>	<u>75</u>

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

The original amount of each issue, the issue date and interest rates are summarized as follows:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
Revenue Bonds July 2006	3,015,000	3.70% - 4.375%
KISTA 2009	890,356	2.00% - 3.80%
Refunding February 2010	1,870,000	1.00% - 3.00%
Revenue January 2011	1,935,000	1.50% - 4.75%
Revenue 2nd Series December 2011	6,745,000	2.00% - 3.25%
QSCB Construction Bonds December 2011	13,300,000	5.00% - 5.00%
Refunding Revenue June 2012	3,360,000	1.10% - 2.25%
KISTA 2013	355,834	2.00% - 2.00%
Revenue Series September 2012	6,635,000	2.00% - 3.00%
Refunding Revenue July 2014	1,420,000	1.00% - 2.00%
Revenue Series February 2016	22,030,000	2.00% - 3.125%
Refunding Revenue Series May 2016	2,155,000	2.00% - 2.25%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Perry County Fiscal Court and the School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt and are considered defeased by the District.

The Perry County School District Finance Corporation issued Series May 2016 Refunding Revenue Bonds to retire July 2006 Revenue Bonds. The total issue was for \$2,155,000. The total savings to the District is expected to be \$233,904 over a ten year period.

The Perry County School District Finance Corporation issued \$22,030,000 in revenue bonds dated February 2016 to finance construction of a new elementary school. The Kentucky School Facilities Construction Commission also participated in the financing. Coupon rates range from 2.00% to 3.125% over a twenty year payment period.

Perry County School District Finance Corporation issued Qualified School Construction Bonds, taxable series dated December 1, 2011 having a par amount of \$13,300,000. Of this amount, \$13,137,337 of the proceeds were deposited directly to the construction fund for assistance in new building facilities for an elementary school. Total bond issue costs were \$54,660. The bond was issued at a discount of \$118,503.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

<u>Fiscal Year End</u>	<u>QSCB Series 2011 Escrow Payment</u>		<u>Expected Escrow Earnings</u>	<u>QSCB Series 2011 Interest</u>	
	<u>Board</u>	<u>KSFCC</u>		<u>Total</u>	<u>Tax Credit</u>
2013	378,800	174,406	6,987	665,000	(665,000)
2014	371,065	182,141	21,227	665,000	(665,000)
2015	367,943	185,263	35,829	665,000	(665,000)
2016	368,343	184,863	50,802	665,000	(665,000)
2017	369,020	184,186	66,155	665,000	(665,000)
2018	373,136	180,070	81,899	665,000	(665,000)
2019	370,799	182,407	98,043	665,000	(665,000)
2020	378,801	174,405	114,598	665,000	(665,000)
2021	378,800	174,406	131,573	665,000	(665,000)
2022	378,800	174,406	148,980	665,000	(665,000)
2023	378,800	174,406	166,829	665,000	(665,000)
2024	378,801	174,405	185,132	665,000	(665,000)
2025	378,800	174,406	203,900	665,000	(665,000)
2026	378,800	174,406	223,145	665,000	(665,000)
2027	378,800	174,406	242,880	665,000	(665,000)
2028	378,800	174,405	263,116	665,000	(665,000)
2029	378,801	174,405	283,866	665,000	(665,000)
2030	366,213	186,993	305,144	665,000	(665,000)
2031	<u>378,800</u>	<u>174,406</u>	<u>158,982</u>	<u>332,500</u>	<u>(332,500)</u>
subtotal	7,132,122	3,378,791	2,789,087	12,302,500	(12,302,500)
realized	<u>(1,486,151)</u>	<u>(726,672)</u>	<u>(114,845)</u>	<u>(2,660,000)</u>	<u>2,660,000</u>
future	<u><u>5,645,971</u></u>	<u><u>2,652,119</u></u>	<u><u>2,674,242</u></u>	<u><u>9,642,500</u></u>	<u><u>(9,642,500)</u></u>
Principal payment due 12/1/2030			<u><u>13,300,000</u></u>		

\$332,500 semi-annual interest payments are due every June and December through December 1, 2030. A federal tax credit for the same amount has been granted for each bondholder resulting in a subsidy/federal on-behalf payment for the School District. The action is a result of creation of qualified school construction bonds under the American Recovery and Reinvestment Act. The Act allows deferral of principal payments for up to 17 years and the creation of an escrow account as noted above. The bonds provide federal tax credits for bondholders in lieu of interest in order to significantly reduce the issuer's cost of borrowing. The Compliance Supplement acknowledges Qualified School Construction Bonds passed through the U.S. Department of Education are not covered by the single audit requirement and are not required to be included in the Schedule of Expenditures of Federal Awards.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

Debt issue costs are recognized as expenditures when incurred in governmental funds, government-wide and proprietary fund type financial statements.

In 1988, the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The following table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2016, for debt service (principal and interest excluding the QSCB Escrow payments) are as follows:

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
	<u>Board</u>	<u>KSFCC</u>	<u>Board</u>	<u>KSFCC</u>	
2016 - 17	1,041,070	1,188,428	578,857	464,266	3,272,621
2017 - 18	1,098,310	1,186,821	583,093	469,988	3,338,212
2018 - 19	1,117,181	1,156,335	559,667	444,882	3,278,065
2019 - 20	1,040,365	1,011,241	534,244	422,501	3,008,351
2020 - 21	1,095,944	1,031,545	510,754	402,196	3,040,439
2021 - 26	5,505,794	5,302,951	2,147,051	1,679,452	14,635,248
2026 - 31	5,884,894	4,995,106	1,398,208	1,041,009	13,319,217
2031 - 36	<u>5,693,390</u>	<u>4,001,610</u>	<u>449,135</u>	<u>352,603</u>	<u>10,496,738</u>
<u>Totals</u>	<u>22,476,948</u>	<u>19,874,037</u>	<u>6,761,009</u>	<u>5,276,897</u>	<u>54,388,891</u>

Following are changes in long-term debt including the QSCB escrow payments:

	<u>Balance</u>			<u>Balance</u>	<u>Current</u>
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Principal</u>
Revenue July 2006	2,230,000	-	(2,230,000)	-	-
KISTA Series 2009	390,156	-	(92,537)	297,619	95,038
Refunding February 2010	785,000	-	(200,000)	585,000	205,000
Revenue January 2011	1,755,000	-	(80,000)	1,675,000	80,000
Rev.2nd Series December 2011	5,945,000	-	(275,000)	5,670,000	280,000
QSCB Bonds December 2011	11,576,339	-	(604,008)	10,972,331	619,361
Refunding Revenue June 2012	2,950,000	-	(310,000)	2,640,000	310,000
KISTA Series 2013	277,193	-	(33,827)	243,366	34,460
Revenue Series September 2012	6,290,000	-	(175,000)	6,115,000	180,000
Revenue Series 2014	1,170,000	-	(230,000)	940,000	230,000
Revenue Series February 2016	-	22,030,000	-	22,030,000	635,000
Refunding Revenue May 2016	-	<u>2,155,000</u>	-	<u>2,155,000</u>	<u>180,000</u>
<u>Total</u>	<u>33,368,688</u>	<u>24,185,000</u>	<u>(4,230,372)</u>	<u>53,323,316</u>	<u>2,848,859</u>

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2016</u>
<u>Governmental Activities</u>				
<b>NON-DEPRECIABLE</b>				
Land	5,509,021	3,385,000	-	8,894,021
Construction in progress	418,164	2,845,939	-	3,264,103
	<u>5,927,185</u>	<u>6,230,939</u>	<u>-</u>	<u>12,158,124</u>
<b>DEPRECIABLE</b>				
Land improvements	3,174,953	-	-	3,174,953
Buildings and improvements	65,421,175	-	-	65,421,175
Technology equipment	4,688,114	592,430	91,795	5,188,749
Vehicles	5,129,079	141,613	-	5,270,692
General equipment	2,174,014	-	5,839	2,168,175
	<u>80,587,335</u>	<u>734,043</u>	<u>97,634</u>	<u>81,223,744</u>
<u>Totals at historical cost</u>	<u>86,514,520</u>	<u>6,964,982</u>	<u>97,634</u>	<u>93,381,868</u>
Less: accumulated depreciation				
Land and improvements	3,081,713	55,967	-	3,137,680
Buildings and improvements	19,359,587	1,285,598	-	20,645,185
Technology equipment	3,629,706	471,728	89,576	4,011,858
Vehicles	4,341,546	207,199	-	4,548,745
General equipment	2,117,468	8,850	5,447	2,120,871
<u>Total accumulated depreciation</u>	<u>32,530,020</u>	<u>2,029,342</u>	<u>95,023</u>	<u>34,464,339</u>
Governmental Activities				
<u>Capital Assets - Net</u>	<u>53,984,500</u>	<u>4,935,640</u>	<u>2,611</u>	<u>58,917,529</u>
<u>Business-Type Activities</u>				
Building and improvements	14,000	-	-	14,000
Technology	29,782	-	250	29,532
Food service and equipment	950,395	49,500	-	999,895
<u>Totals at historical cost</u>	<u>994,177</u>	<u>49,500</u>	<u>250</u>	<u>1,043,427</u>
Less: accumulated depreciation				
Building and improvements	4,200	440	-	4,640
Technology	22,239	1,483	250	23,472
Food service and equipment	827,129	27,822	-	854,951
<u>Total accumulated depreciation</u>	<u>853,568</u>	<u>29,745</u>	<u>250</u>	<u>883,063</u>
Business-Type Activities				
<u>Capital Assets - Net</u>	<u>140,609</u>	<u>19,755</u>	<u>-</u>	<u>160,364</u>

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE E – CAPITAL ASSETS (continued)

Depreciation expense was allocated to governmental functions as follows:

Instruction	1,746,765
Plant operation and management	75,378
Student transportation	<u>207,199</u>
<u>Total</u>	<u><u>2,029,342</u></u>

NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2016, as follows:

Year ending June 30:	
2017	465,763
2018	465,763
2019	239,996
2020	239,996
2021	<u>79,999</u>
Total Minimum Rentals	<u><u>1,491,517</u></u>

NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

**Summary of Significant Accounting Policies**

*Pensions* – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (KTRS) and additions to/deductions from KTRS's fiduciary net position have been determined on the same basis as they are reported by KTRS. For this purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**General Information about the Pension Plan**

*Plan Description* – Teaching-certified employees of the Perry County School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)-a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at [http://www.ktrs.ky.gov/05\\_publications/index.htm](http://www.ktrs.ky.gov/05_publications/index.htm).

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

**NOTE G – RETIREMENT PLANS (continued)**

*Benefits Provided* – For members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

*Contributions* – Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university members are required to contribute 12.105% of their salaries to the System. University members are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions of the amount 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. University employers contribute 15.36% of salaries for members. For local school district and regional cooperative members whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

**Medical Insurance Plan**

*Plan Description* – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee insurance and the General Assembly.



PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE G – RETIREMENT PLANS (continued)

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

*Funding policy* – In order to fund the post-employment healthcare benefit, six percent (6.00%) of the gross annual payroll of members before July 1, 2008 is contributed. Three percent (3.00%) is paid by member contributions and three quarters percent (.75%) from state appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

**Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:**

At June 30, 2016, Perry County School District did not report a net pension liability for its proportionate share of the net pension liability because the State of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its KTRS proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

State's proportionate share of the	
net pension liability associated with the	
District	<u>\$ 123,987,658</u>

The net pension liabilities were measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's proportion was .5328% for KTRS.

For the year ended June 30, 2016, the District's government-wide financial statements reported KTRS pension expense of \$7,039,422. The District recognized no deferred outflows of resources, inflows of resources or unfunded liability for KTRS purposes.

*Actuarial assumptions* – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE G – RETIREMENT PLANS (continued)

Significant assumptions used in the KTRS valuation were as follows:

- Investment rate of return – 7.5%, net of pension plan investment expense, including inflation.
- Projected salary increases – 4.00 – 8.20%, including inflation
- Inflation rate – 3.5%
- Municipal bond Index Rate – 3.82%
- Single Equivalent Interest Rate – 4.88%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

The long term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS' investment consultants is summarized in the following table:

<u>Asset Class</u>	<u>KTRS Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
	100.0%	

*Discount rate* – The discount rate used to measure the total pension liability as of the measurement date was 4.88%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67 and assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2039 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). There was a change in the Municipal Bond Index Rate from the Prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at the Measurement Date of 4.88% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.82%). This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 68.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE G – RETIREMENT PLANS (continued)

The following table presents the net pension liability –proportionate share, calculated using the discount rate of 4.88%, as well as what the Commonwealth's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.88%) or 1 percentage point higher (5.88%) than the current rate:

	<b>1% Decrease (3.88%)</b>	<b>Current Discount Rate (4.88%)</b>	<b>1% Increase (5.88%)</b>
Commonwealth's proportionate share of			
District pension liability	\$ 158,285,620	\$ 123,987,658	\$ 56,758,950

*Pension plan fiduciary net position* – Detailed information about the pension plan's fiduciary net position is available in the separately issued KTRS financial report.

**County Employees Retirement System**

*Plan Description:* Substantially all full-time classified employees of the District participate in the County Employees Retirement System (CERS). CERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (505) 564-4646 or at <https://kyret.ky.gov>.

*Benefits Provided* - Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

*Contributions* - Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00% and a district contribution of 17.06% of the employee's total compensation subject to contributions.

At June 30, 2016, the District reported the following for its proportionate share of net pension liability.

District's proportionate share of the net	
CERS pension liability	<u>\$ 10,881,349</u>

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE G – RETIREMENT PLANS (continued)

The net pension liability was measured as of June 30, 2015. The total pension liability used was based on an actuarial valuation as of June 30, 2016. At June 30, 2016 the District's proportion of the net pension liability based on contributions to CERS during fiscal year ended June 30, 2015 was .2531%.

For the year ended June 30, 2016, the District recognized pension expense of \$752,858. The District reported deferred outflows of resources at June 30, 2016 in the amount of \$1,388,300. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

The District reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$902,000. This will be recognized as pension expense as follows:

	Year	Total	
	2016	180,400	
	2017	180,400	
	2018	180,400	
	2019	180,400	
	2020	<u>180,400</u>	
		<u>902,000</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	
Differences between expected and actual experience	90,428	-	
Changes of assumptions	1,097,265	-	
Net difference between projected and actual earnings on pension plan investments	97,543	-	
Changes in proportion and differences between District contributions and proportionate share of contributions	103,064	-	
District contributions subsequent to the measurement date	-	-	
Total	<u>1,388,300</u>	<u>-</u>	

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

**NOTE G – RETIREMENT PLANS (continued)**

*Actuarial Methods and Assumptions* - The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

- Valuation date, June 30, 2015
- Experience study – July 1, 2008 – June 30, 2013
- Actuarial Cost method – Entry Age Normal
- Amortization Method – Level percentage of payroll, closed
- Remaining Amortization Period – 28 years
- Asset Valuation method – 5-year smoothed market
- Inflation – 3.25%
- Salary increases, 4.00% including .75% wage inflation.
- Investment rate of return – 7.50%

The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table with Scale BB to 2013.

The target asset allocation and best estimates of arithmetic real rate of return for each major asset class, as provided by CERS's investment consultant, are summarized as follows:

<u>Asset Class</u>	Long-term	
	CERS Target <u>Allocation</u>	Expected Nominal <u>Return</u>
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	-0.25%
	100.0%	

*Discount Rate* – the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Deferred inflows and outflows and pension expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability is based on the June 30, 2015 actuarial valuations. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a five year period.

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE G – RETIREMENT PLANS (continued)

The following presents the District's proportionate share of net pension liability calculated using the discount rate of 7.75% as well as the District's share if calculated using a rate 1% higher and 1% lower:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of net pension liability	\$ 13,668,422	\$ 10,881,349	\$ 8,581,249

*Pension plan fiduciary net position* – Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

There were no payables to the pension plan at June 30, 2016.

NOTE H – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The District was notified Kentucky School Board Insurance Trust dissolved fiscal year 2013. As a result, penalty payments to local participating Districts based on past premiums or past claims were required. The District's liability to the KSBIT Workers' Compensation Fund was \$224,293. The District paid \$56,073 of this balance in August 2014 and chose to pay the remaining balance of \$168,220 in six installments equal to 12.5% of the assessment, the first additional installment payment due on August 15, 2015, and the remaining installments due on each August 15 thereafter. The amount of the liability is recorded in the government wide financial statements. A liability is not reflected in the fund financial statements in accordance with GASB Interpretation No. 6, as governmental funds follow the current financial resources measurement focus (modified accrual basis of accounting).

The District received a letter from Internal Revenue Service in early 2014 indicating a penalty assessment for failure to electronically transmitting employer W-2 information in a timely manner for 2012. The total amount of the assessment is \$58,920. Management has responded twice requesting abatement of the entire amount. At report date, the issue has not been resolved. However, management believes the amount can be abated and a liability has not been posted to the financial statements or funds specifically set aside.

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE J – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

NOTE K – RISK MANAGEMENT

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L – DEFICIT OPERATING/FUND BALANCES

The following fund had a deficit balances at June 30, 2016:

Food Service Fund	47,572
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The following funds had operating expenditures in excess of revenues at June 30, 2016:

AB Combs Elementary Activity Fund	6,694
Leatherwood Elementary Activity Fund	4,746
RW Combs Elementary Activity Fund	6,035
Viper Elementary Activity Fund	14,564
Food Service Fund	616,004

NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school District at risk for a substantial loss (contingency).

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue	KETS	86,078
Food Service	General Fund	Indirect Cost	29,434
Capital Outlay Fund	General Fund	Maintenance Costs	358,658
General Fund	Special Revenue	Community Education	5,000
FSPK Fund	Debt Service	Debt retirement	<u>1,558,026</u>
	Total		<u>2,037,196</u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2016 were \$-0-.

NOTE P – ON-BEHALF PAYMENTS

The following payments made by the state on behalf of employees of the District and for the benefit of the District are recognized in the government-wide financial statements as additional revenue and expenditures for the year ended June 30, 2016:

Kentucky Teacher's Retirement System	2,564,235
Health Insurance	4,118,323
Life Insurance	7,675
Administrative Fees	56,213
Health Reimbursement Account	316,529
Technology	81,789
Debt Service	1,029,621
Less: Federal Reimbursement	<u>(456,994)</u>
Total	<u>7,717,391</u>

Payments are allocated among the following funds:

General Fund	6,440,458
Debt Service	1,029,621
Food Service Fund	<u>247,312</u>
Total	<u>7,717,391</u>



PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE Q – FUND BALANCE CLASSIFICATIONS

The District implemented Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011. This standard clarifies existing governmental fund type definitions and establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Classifications include *nonspendable*, examples being prepaid items and inventory, and the following spendable fund balances - *restricted* – fund balances that are constrained by external parties, constitutional provisions or enabling legislation, *committed* – fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, *assigned* – fund balances that contain self-imposed constraints of the government to be used for a particular purpose and *unassigned* – fund balance of the general fund that is not constrained for any particular purpose. The standard affects fund balance reporting only and do not affect government-wide or proprietary fund financial statements.

The following schedule reflects governmental fund balances at June 30, 2016:

	General Fund	Construction Fund	FSPK Fund	Total
<b>Fund balances</b>				
Restricted for debt service	-	-	555,702	555,702
Restricted for future construction	-	15,652,318	5,353,734	21,006,052
Restricted for sick leave	162,617	-	-	162,617
Assigned purchase obligations	37,799	-	-	37,799
Unassigned fund balance	<u>3,842,856</u>	<u>-</u>	<u>-</u>	<u>3,842,856</u>
 <u>Total</u>	 <u>4,043,272</u>	 <u>15,652,318</u>	 <u>5,909,436</u>	 <u>25,605,026</u>

The District's budget by State law must have a minimum 2% contingency. However, a separate contingency reserve fund has not been established. The District's Statement of Net Position reflects a reserve for fixed assets and school food service inventory.

NOTE R – BEGINNING NET POSITION RESTATED

The District reclassified beginning position in its government wide financial statements allocating \$1,220,307 from its government wide balance to business type balance relative to GASB 68 liabilities and deferrals.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUNDFor the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
<b>Revenues:</b>				
From local sources:				
Taxes	8,103,000	8,103,000	7,863,654	(239,346)
Earnings on investments	35,000	35,000	69,309	34,309
Other local revenue	20,000	20,000	41,942	21,942
Intergovernmental - state	23,729,421	23,827,150	24,024,029	196,879
Intergovernmental - indirect federal	<u>100,000</u>	<u>100,000</u>	<u>87,746</u>	<u>(12,254)</u>
<b><u>Total revenues</u></b>	<u>31,987,421</u>	<u>32,085,150</u>	<u>32,086,680</u>	<u>1,530</u>
<b>Expenditures:</b>				
Instructional	19,752,138	19,974,948	18,751,901	1,223,047
Student support services	1,624,897	1,624,897	1,433,163	191,734
Staff support services	644,620	646,211	606,157	40,054
District administration	926,160	926,160	822,241	103,919
School administration	2,205,221	2,175,787	2,193,966	(18,179)
Business support	967,876	967,876	1,031,285	(63,409)
Plant operations and management	3,812,558	3,861,914	4,251,537	(389,623)
Student transportation	2,421,420	2,421,420	2,392,603	28,817
Food service operations	600	600	-	600
Community service activities	3,745	5,879	9,521	(3,642)
Debt service and miscellaneous	-	-	146,168	(146,168)
Contingencies	<u>2,184,186</u>	<u>2,484,813</u>	<u>-</u>	<u>2,484,813</u>
<b><u>Total expenditures</u></b>	<u>34,543,421</u>	<u>35,090,505</u>	<u>31,638,542</u>	<u>3,451,963</u>
Excess (deficit) of revenues over expenditures	<u>(2,556,000)</u>	<u>(3,005,355)</u>	<u>448,138</u>	<u>3,453,493</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	16,000	16,000	388,092	372,092
Operating transfers out	(60,000)	(60,000)	(91,078)	(31,078)
Gains/losses on assets	<u>-</u>	<u>-</u>	<u>6,979</u>	<u>6,979</u>
<b><u>Total other financing sources (uses)</u></b>	<u>(44,000)</u>	<u>(44,000)</u>	<u>303,993</u>	<u>347,993</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(2,600,000)</u>	<u>(3,049,355)</u>	<u>752,131</u>	<u>3,801,486</u>
<b>Fund balance - July 1, 2015</b>	<u>2,600,000</u>	<u>3,049,355</u>	<u>3,128,524</u>	<u>79,169</u>
<b>Fund balance - June 30, 2016</b>	<u>-</u>	<u>-</u>	<u>3,880,655</u>	<u>3,880,655</u>

Ending fund balance represents unassigned fund balance at June 30, 2016 without regard to the District's restriction for sick leave in the amount of \$162,617.

See notes to financial statements and independent auditor's report.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
<b>Revenues:</b>	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
From local sources	72,097	98,753	314,869	216,116
Intergovernmental - state	2,317,330	2,836,225	2,907,285	71,060
Intergovernmental - direct federal	244,335	59,444	59,444	-
Intergovernmental - indirect federal	4,413,944	3,061,703	4,105,182	1,043,479
<b><u>Total revenues</u></b>	<u>7,047,706</u>	<u>6,056,125</u>	<u>7,386,780</u>	<u>1,330,655</u>
<b>Expenditures:</b>				
Instructional	4,936,308	4,235,965	5,352,866	(1,116,901)
Student support services	27,171	4,169	19,820	(15,651)
Staff support services	1,410,916	998,780	1,312,629	(313,849)
District administration support services	-	549	2,361	(1,812)
Business support services	13,942	48	48	-
Plant operations and maintenance	84,395	44,935	64,693	(19,758)
Student transportation	146,333	130,777	143,006	(12,229)
Food service operation	-	50,557	53,020	(2,463)
Community service activities	493,641	483,291	534,365	(51,074)
<b><u>Total expenditures</u></b>	<u>7,112,706</u>	<u>5,949,071</u>	<u>7,482,808</u>	<u>(1,533,737)</u>
Excess (deficit) of revenues over expenditures	<u>(65,000)</u>	<u>107,054</u>	<u>(96,028)</u>	<u>(9,630)</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	65,000	-	91,078	(91,078)
Gains/losses on assets	-	-	4,950	(4,950)
<b><u>Total other financing sources (uses)</u></b>	<u>65,000</u>	<u>-</u>	<u>96,028</u>	<u>(96,028)</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	-	107,054	-	-
<b>Fund balance - July 1, 2015</b>	-	-	-	-
<b>Fund balance - June 30, 2016</b>	<u>-</u>	<u>107,054</u>	<u>-</u>	<u>-</u>

See notes to financial statements and independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSCHEDULES OF EMPLOYER'S SHARE OF NET PENSION LIABILITY  
AND SCHEDULES OF EMPLOYER CONTRIBUTIONSFor the Year Ended June 30, 2016**Employer's Proportionate Share of Net Pension Liability**

	<u>2016</u>		<u>2015</u>	
	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>
Employer's proportion of the net pension liability	0.5328%	0.2531%	0.5661%	0.2491%
Employer's proportionate share of the net pension liability	-	10,881,349	-	8,081,000
State's proportionate share of the net pension liability	123,987,658	-	116,329,487	-
Employer's covered employee payroll	17,579,831	6,213,345	17,381,809	6,254,810
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	705%	175%	669%	129%
Plan fiduciary net position as a percentage of the total pension liability	42.5%	60.0%	45.6%	66.8%

**Employer's Contributions**

	<u>2016</u>		<u>2015</u>	
	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>
Contractually required contribution	2,564,235	1,265,300	3,419,858	1,079,458
Contributions in relation to the contractually required contribution	2,564,235	1,224,238	3,419,858	1,079,458
Contribution deficiency (excess)	-	41,062	-	-
District's covered employee payroll	17,579,831	6,213,345	17,381,809	6,254,810
Contributions as a percentage of covered employee payroll	14.59%	19.70%	19.67%	17.26%

Change of benefit terms - None.

Change of assumptions - \$1,097,625 for CERS.

See notes to financial statements and independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTCOMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDSFor the Year Ended June 30, 2016

	<u>SEEK Capital Outlay Fund</u>	<u>Debt Service Funds</u>	<u>Total</u>
<b>Assets:</b>			
Cash and cash equivalents	-	-	-
Accounts receivable	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Total assets</b>	<hr/>	<hr/>	<hr/>
<b>Liabilities and fund balances:</b>			
<b>Liabilities:</b>			
Accounts payable	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Fund balances:</b>			
Restricted for future construction	-	-	-
Unassigned fund balance	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Total fund balances</b>	<hr/>	<hr/>	<hr/>
<b>Total liabilities and fund balances</b>	<hr/>	<hr/>	<hr/>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDSFor the Year Ended June 30, 2016

	SEEK Capital Outlay <u>Fund</u>	Debt Service <u>Funds</u>	<u>Total</u>
<b>Revenues:</b>			
Intergovernmental - State	<u>358,658</u>	<u>1,029,621</u>	<u>1,388,279</u>
<b><u>Total revenues</u></b>	<u>358,658</u>	<u>1,029,621</u>	<u>1,388,279</u>
<b>Expenditures:</b>			
Plant Operation and Maintenance	-	-	-
Facilities Acquisition and Construction	-	-	-
Debt service:			
Principal	-	2,004,035	2,004,035
Interest	<u>-</u>	<u>583,612</u>	<u>583,612</u>
<b><u>Total expenditures</u></b>	<u>-</u>	<u>2,587,647</u>	<u>2,587,647</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>358,658</u>	<u>(1,558,026)</u>	<u>(1,199,368)</u>
Other financing sources (uses):			
Bond proceeds	-	2,099,971	2,099,971
Bond issue retirement	-	(2,099,971)	(2,099,971)
Operating transfers in	-	1,558,026	1,558,026
Operating transfers out	<u>(358,658)</u>	<u>-</u>	<u>(358,658)</u>
<b><u>Total other financing sources (uses)</u></b>	<u>(358,658)</u>	<u>1,558,026</u>	<u>1,199,368</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	-	-	-
Fund balance, July 1, 2015	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2016	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEPERRY COUNTY HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2016

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance July 1, 2015</u>	<u>Fund Balance June 30, 2016</u>
General	17,027	17,718	(691)	2,541	1,850
Locker	2,295	3,427	(1,132)	1,375	243
Lost textbooks	413	-	413	1,403	1,816
Parking tags	125	330	(205)	476	271
Coke lounge	5,396	4,770	626	1,181	1,807
Coke lobby	9,274	7,803	1,471	2,203	3,674
Breaktime vending	266	202	64	939	1,003
Donated	-	-	-	333	333
Breaktime vend lounge	270	720	(450)	533	83
Regional baseball	7,630	3,545	4,085	-	4,085
Senior college day	605	605	-	-	-
Janitorial	1,309	1,309	-	-	-
Board travel	20,000	19,400	600	2,030	2,630
Regional soccer	5,190	5,190	-	-	-
Soccer state	3,110	3,110	-	-	-
WYMT hospitality	-	1,298	(1,298)	1,298	-
All A Classic Tourney	10,831	10,831	-	-	-
Gate receipts	37,358	36,000	1,358	920	2,278
Football	43,905	33,439	10,466	8,312	18,778
Track	10,668	9,548	1,120	4,112	5,232
Boys basketball	38,482	35,794	2,688	3,464	6,152
Girls basketball	39,495	43,670	(4,175)	7,758	3,583
Wrestling	13,192	12,322	870	8,255	9,125
Volleyball	8,763	9,252	(489)	4,093	3,604
Middle school volleyball	4,577	2,453	2,124	-	2,124
Golf	200	113	87	126	213
Cross country	1,577	1,590	(13)	46	33
Baseball	19,690	19,690	-	-	-
Softball	24,586	27,470	(2,884)	8,000	5,116
Boys varsity cheerleaders	36,898	36,898	-	-	-

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEPERRY COUNTY HIGH SCHOOL ACTIVITY FUND (CONTINUED)For the Year Ended June 30, 2016

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance July 1, 2015</u>	<u>Fund Balance June 30, 2016</u>
Tennis	1,750	1,745	5	4	9
Archery team	5,784	5,604	180	-	180
Fishing team	2,225	1,681	544	1	545
Soccer	33,779	36,245	(2,466)	2,504	38
District tourney soccer	5,191	5,191	-	-	-
AP (Pre) English	2,659	2,768	(109)	109	-
Academics	1,795	2,702	(907)	975	68
Band	13,148	14,940	(1,792)	3,055	1,263
BETA	443	165	278	1	279
Business/FBLA	430	166	264	-	264
Chorus	2,441	2,438	3	-	3
Commodore Vault	300	300	-	537	537
Drama	8,424	9,036	(612)	652	40
FCCLA	842	98	744	516	1,260
FFA	2,585	2,219	366	-	366
Prayer Club	257	281	(24)	24	-
Guidance	515	250	265	728	993
JROTC	6,328	6,658	(330)	3,613	3,283
Juniors	12,740	13,557	(817)	3,194	2,377
Behavioral Health Screenin	600	-	600	-	600
Library	44	-	44	1,385	1,429
National art	2,328	1,178	1,150	64	1,214
Yearbook	3,432	9,744	(6,312)	7,194	882
Seniors	84,685	87,023	(2,338)	3,503	1,165
Overview tech	-	-	-	27	27
YSC	2,878	3,255	(377)	703	326
Tablets	13,180	15,180	(2,000)	5,158	3,158
State tournament	-	494	(494)	494	-
<u>Sub-totals</u>	571,915	571,415	500	93,922	94,422
Less: Interfund transfers	63,899	63,899	-	-	-
<u>Totals</u>	<u>508,016</u>	<u>507,516</u>	<u>500</u>	<u>93,922</u>	<u>94,422</u>

See independent auditor's report.



PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEBUCKHORN SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2016

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance July 1, 2015</u>	<u>Fund Balance June 30, 2016</u>
General fund	18,767	19,071	(304)	1,251	947
Vending machines	3,641	5,000	(1,359)	4,015	2,656
Employee workroom	3,994	2,868	1,126	1,029	2,155
Textbook	-	-	-	78	78
High school academics	1,780	1,780	-	-	-
FFA	2,791	2,186	605	-	605
FBLA club	2,559	2,559	-	-	-
Paw Prints	2,597	1,978	619	-	619
STLP	3,992	3,802	190	-	190
Baseball	12,220	11,281	939	(939)	-
Cross country/track	300	396	(96)	171	75
Elem 3th & 4th basketball	-	125	(125)	636	511
Elem boys basketball	3,274	4,000	(726)	1,659	933
Elem boys cheerleader	1,408	1,397	11	438	449
Elem girls basketball	2,322	3,698	(1,376)	2,264	888
H.S. boys basketball	78,963	72,009	6,954	(239)	6,715
H.S. cross county	810	810	-	-	-
H.S. girls basketball	10,719	10,918	(199)	2,888	2,689
H.S. cheerleaders	4,871	4,871	-	-	-
Volleyball	11,440	11,440	-	-	-
Soccer	2,648	2,648	-	-	-
Softball	10,076	9,483	593	(593)	-
JROTC	-	3,584	(3,584)	3,584	-
Library	2,125	3,091	(966)	976	10
Reimbursement	1,773	2,812	(1,039)	1,039	-
Family resource center	1,484	5,638	(4,154)	4,555	401
FRYSC Children Inc.	2,392	925	1,467	826	2,293
8th Grade cap and gown	560	-	560	-	560
8th Grade trip	12,681	10,962	1,719	210	1,929
11th Grade - Prom	1,505	2,585	(1,080)	1,080	-
Senior trip 2015-16	24,266	23,847	419	(230)	189
Guidance - Ky AHED	1,711	1,711	-	-	-
Guidance - records	135	-	135	158	293
Donations	1,000	-	1,000	-	1,000
Tablet fund	4,080	114	3,966	7,129	11,095
Staff incentives	1,210	1,473	(263)	474	211
Scholarships	1,200	500	700	1,000	1,700
<u>Sub-totals</u>	235,294	229,562	5,732	33,459	39,191
Less: Interfund transfers	16,139	16,139	-	-	-
<u>Totals</u>	<u>219,155</u>	<u>213,423</u>	<u>5,732</u>	<u>33,459</u>	<u>39,191</u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCEOTHER SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2016

	<u>A.B. Combs Elementary</u>	<u>Chavies Elementary</u>	<u>East Perry Elementary</u>	<u>Leatherwood Elementary</u>
<u>REVENUES:</u>				
Activity funds	80,289	78,350	172,542	81,772
<u>EXPENDITURES:</u>				
Activity funds	<u>86,983</u>	<u>75,425</u>	<u>159,149</u>	<u>86,518</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	(6,694)	2,925	13,393	(4,746)
Fund Balance, July 1, 2015	<u>39,565</u>	<u>26,648</u>	<u>76,933</u>	<u>13,204</u>
Fund Balance, June 30, 2016	<u><u>32,871</u></u>	<u><u>29,573</u></u>	<u><u>90,326</u></u>	<u><u>8,458</u></u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCEOTHER SCHOOL ACTIVITY FUNDS (CONTINUED)For the Year Ended June 30, 2016

	<u>Robinson Elementary</u>	<u>R.W. Combs Elementary</u>	<u>Viper Elementary</u>	<u>Willard Elementary</u>	<u>Total (Memorandum Only)</u>
<u>REVENUES:</u>					
Activity funds	87,179	102,161	106,411	65,883	774,587
<u>EXPENDITURES:</u>					
Activity funds	<u>78,980</u>	<u>108,196</u>	<u>120,975</u>	<u>62,411</u>	<u>778,637</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	8,199	(6,035)	(14,564)	3,472	(4,050)
Fund Balance, July 1, 2015	<u>26,263</u>	<u>50,236</u>	<u>28,345</u>	<u>8,081</u>	<u>269,275</u>
Fund Balance, June 30, 2016	<u><u>34,462</u></u>	<u><u>44,201</u></u>	<u><u>13,781</u></u>	<u><u>11,553</u></u>	<u><u>265,225</u></u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Subrecipient Amount</u>	<u>Program Expenditures</u>
<u>U. S. Department of Agriculture</u>				
Passed through State Department of Education:				
- <i>Child Nutrition Cluster</i> -				
School Breakfast Program	10.553	7760005	N/A	<u>655,643</u>
School Lunch Program	10.555	7750002	N/A	<u>1,735,400</u>
Summer Food Service Program for Children	10.559	7690023	N/A	233,870
	10.559	7690024	N/A	<u>24,311</u>
				<u>258,181</u>
Passed through State Department of Agriculture:				
National School Lunch Program	10.555	097-0100	N/A	<u>145,416</u>
<u>Total Child Nutrition Cluster</u>				<u><b>2,794,640</b></u>
Passed through State Department of Education:				
Fruit and Vegetable Program	10.582	7720012	N/A	<u>80,047</u>
Child and Adult Care Food Program (CACFP)	10.558	7790021	N/A	478,603
	10.558	7800016	N/A	<u>36,984</u>
				<u>515,587</u>
State Administrative Expenses for Child Nutrition	10.560	7700001	N/A	<u>5,909</u>
Child Nutrition Discretionary Grants Limited Availability	10.579	7840027	N/A	<u>25,000</u>
Farm to School Grant Program	10.575	233B	N/A	32,335
		233BI	N/A	<u>18,222</u>
				<u>50,557</u>
Passed through Perry County Fiscal Court				
Schools and Roads Grant to States	10.665	505X	N/A	<u>716</u>
<u>Total U.S. Department of Agriculture</u>				<u><b>3,472,456</b></u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Subrecipient Amount</u>	<u>Program Expenditures</u>
<u>U. S. Department of Education</u>				
Passed through State Department of Education:				
Title I	84.010	310A	N/A	259,706
	84.010	310B	N/A	1,844,428
Title I School Improvement	84.010	320A	N/A	282,287
<u>Total Title I</u>				<u>2,386,421</u>
<i>- Special Education Cluster -</i>				
IDEA - B Basic	84.027	337B	N/A	445,569
	84.027	337A	N/A	480,590
IDEA -B Preschool	84.173	343A	N/A	74,775
	84.173	343A	N/A	20,050
				<u>1,020,984</u>
Vocational Education - Basic	84.048	348A	N/A	5,798
	84.048	348B	N/A	41,019
	84.048	348AA	N/A	1,358
				<u>48,175</u>
Rural and Low Income School Program	84.358	350A	N/A	77,027
	84.358	3504	N/A	16,878
	84.358	350B	N/A	4,995
				<u>98,900</u>
Teacher Quality Grant	84.367	401A	N/A	34,266
	84.367	401B	N/A	265,595
				<u>299,861</u>
Passed through Berea College:				
GEAR-UP	84.334A	379AG	N/A	94,189
	84.334A	379BG	N/A	208,650
	84.334A	379AA	N/A	23,396
	84.334A	379BA	N/A	239,326
	84.334A	379AC	N/A	15,213
	84.334A	379BC	N/A	76,810
	84.334A	379BP	N/A	7,377
				<u>664,961</u>
<u>Total Department of Education</u>				<u>4,519,302</u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Subrecipient Amount</u>	<u>Program Expenditures</u>
<u>Appalachian Regional Commission</u>				
Passed through Morehead State University				
Appalachian Higher Education network (KY AHED)	12.000	504B	N/A	<u>3,802</u>
<u>US Department of Defense</u>				
Direct				
JROTC	12.000	504B	N/A	<u>59,444</u>
<u>Total Federal Awards Expended</u>				<u>8,055,004</u>

## Note 1—Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Perry County School District, under programs of the federal government for the year ended June 30, 2016 in accordance with the requirements of Title 2 U.S. code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Perry County School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Perry County School District.

## Note 2—Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance\*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Perry County School District has not elected to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

\*Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

## Note 3 – Non-Monetary Assistance

Non-monetary assistance CFDA #10.555, \$145,416, is reported in the schedule at the fair value of the food donations disbursed.

**Chris Gooch**

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

State Committee for School District Audits  
Members of Perry County Board of Education

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits in the Kentucky Public School Districts Audit Contract Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Perry County School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Perry County School District's basic financial statements, and have issued our report thereon dated November 9, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Perry County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Perry County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Perry County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Perry County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Perry County School District, in a separate letter dated November 9, 2016. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Kentucky Public School District's Audit Contract and Requirements – State Compliance Requirements.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

November 9, 2016



**Chris Gooch**  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE

To Board Members  
Perry County School District

**Report on Compliance for Each Major Federal Program**

We have audited Perry County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Perry County School District's major federal programs for the year ended June 30, 2016. Perry County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Perry County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Perry County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Perry County School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Perry County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.


**Report on Internal Control Over Compliance**

Management of Perry County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Perry County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Perry County School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

November 9, 2016

PERRY COUNTY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2016

- FINDING RELATED TO THE FINANCIAL STATEMENTS -

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None

PERRY COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

- SUMMARY OF AUDIT RESULTS -

1. We have issued an unmodified opinion on the financial statements.
2. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit in internal control over major programs.
5. We have issued an unmodified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under section 200.516 of Title 2 U.S. Code of Federal Regulations Part 200.
7. Perry County School District had the following major programs:

U. S. Department of Education

Passed through State Department of Education:

Title I CFDA number 84.010

- Special Education Cluster -

IDEA-B Basic

CFDA number 84.027

IDEA-B Preschool

CFDA number 84.173

U.S. Department of Agriculture

- Passed through State Departments of Education and Agriculture -

- Child Nutrition Cluster -

School Lunch and Breakfast Program, Summer Food Service Program  
for Children

CFDA numbers 10.553, 10.555 & 10.559

1. The dollar threshold used to distinguish between major and non-major programs was \$750,000.
2. The auditee qualified as a low-risk auditee under section 200.520 of Title 2 U.S. Code of Federal Regulations Part 200.

PERRY COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)For the Year Ended June 30, 2016

- FINDING RELATED TO THE FINANCIAL STATEMENTS -

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None

**Chris Gooch**  
Certified Public Accountant  
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Perry County Board of Education  
and Management  
Hazard, Kentucky

In planning and performing our audit of the financial statements of Perry County School District for the year ended June 30, 2016, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated November 9, 2016, contains our report on the District's internal control structure. This letter does not affect our report dated November 9, 2016 on the financial statements of the Perry County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A handwritten signature in blue ink, appearing to read "Chris Gooch", written in a cursive style.

Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

November 9, 2016

PERRY COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2016**Prior Year Comments**

1. The District should periodically examine a sample of personnel deductions for reasonableness and document its review.
  - *Management personnel are utilizing databases within the system and periodically reviewing payroll deductions for discrepancies.*
2. The District should continue to monitor activity funds expenditures as it relates to the nature of the transaction. We noted tools and supplies acquired, \$668.53, Lowes, directly from an activity fund account at Perry County Central High School. We noted a professional development expenditure paid directly out of Robinson Elementary Activity Fund, \$1,000, without indication of reimbursement by the General Fund.
  - *Management has provided continuing education to personnel responsible for purchasing, assuring expenditures are properly accounted either within the Activity Fund accounts, the Site Based account or utilization of Fund 22, where applicable.*
3. School food service purchased \$550 in prepaid i-tune cards and various prizes without documenting who received the item and the school related purpose.
  - *Applicable management personnel have been notified regarding proper accounting for this type expenditure.*
4. School purchasing and accounts payable should assure documents on file indicate disbursements are paid from itemized receipts rather than vendor statements.
  - *Management has provided continuing education to applicable personnel regarding maintenance of proper underlying documents required to support disbursement transactions.*
5. Gift cards were purchased out of the General Fund account from Food City without indication of recipient or school purpose.
  - *Management has implemented procedures to assure detail receipts indicate school purpose.*
6. Noted two instances the District overpaid vendors by remitting prior balances listed on statements previously paid. The District was credited and/or refunded in both instances.
  - *Management personnel has enhanced its statement review process for vendor accounts.*

**Current Year Comments**

1. When testing April Food Service claims for reimbursements, we noted Viper Elementary and Buckhorn Schools had underclaimed meals when comparing to underlying data. Management should emphasize controls regarding review and reconciliation of meal claims.
2. State sales tax was paid on District Windstream invoices, \$656.94. However, the vendor was notified and a credit was received.